

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOHNSON COUNTY GAS COMPANY, INC.)	
)	
_____)	
)	CASE NO. 91-392
ALLEGED FAILURE TO COMPLY WITH)	
COMMISSION ORDER FROM CASE NO.)	
10415)	

SHOW CAUSE ORDER

Johnson County Gas Company, Inc. ("Johnson County") is engaged in the business of distributing natural gas to the public for compensation and is a utility subject to the jurisdiction of this Commission pursuant to KRS 278.040.

Johnson County was in bankruptcy proceedings, and a Plan of Reorganization ("Plan") was filed by the Kentucky Department of Local Government ("DLG") and Columbia Gas of Kentucky, Inc. ("Columbia") on December 30, 1985. The Plan was confirmed by the Bankruptcy Court.

Article II of the Plan required that "the [unsecured] claims of DLG and Columbia Gas. . . shall be paid together pro rata (i.e., as each claim bears a percentage to the two combined claims). . . ." The Plan further identified the amounts of these claims as \$1,321,374 (89 percent) payable to DLG and \$156,682 (11 percent) to Columbia. The Plan provided that the Columbia arrearage would not bear interest and the DLG obligation was to be retired according to the original terms of the mortgage.

The Commission initiated Case No. 10415 on November 9, 1988, to investigate the reasonableness of Johnson County's rates in consideration of the Plan. The Order initiating the case was followed by a Staff Report which detailed the following objectives to be accomplished along with a proposed rate reduction:

1. To comply with the provisions of the Plan.
2. To contain costs.
3. To increase the system's customer base.
4. To set rates based on the current cost of service.
5. To re-establish Johnson County's purchased gas adjustment ("PGA") mechanism.

After numerous informal conferences with the respective parties, a settlement of all outstanding issues in this case was reached between the parties and Commission Staff. The Commission's October 30, 1990 Order, which is attached hereto and incorporated herein as Appendix A, adopted and approved the settlement agreement. As a part of the agreement, the rates were redesigned and a surcharge was established to provide for repayment of Johnson County's debts to Columbia Gas and DLG. Johnson County was ordered by the Commission to place the surcharge revenue in escrow and use the surcharge revenues to pay the arrearage of gas purchases to Columbia and the repayment of debt to DLG. Said payments were to be made monthly, and proceeds from surcharge collections were to be used for no reason other than repayment of debts to DLG and Columbia. The Commission's Order approving the settlement provided that this surcharge will immediately cease upon extinguishment of the entire debt or if any

of the proceeds therefrom are used for any reason other than for repayment of the debts to DLG and to Columbia. The Commission Order further required Johnson County to file a copy of its monthly general ledger within 30 days from the end of each month.

As of September 1, 1991, the Commission has not received the monthly reports required by the Order and consequently cannot determine if Johnson County is in compliance with the Order regarding the surcharge. In addition, without these reports, the Commission cannot verify that Johnson County is paying Columbia Gas and DLG in accordance with the provisions of the October 30, 1990 Order.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that a prima facie showing has been made that Johnson County has failed to comply with ordering paragraph 5 of the Commission's Order dated October 30, 1990 in Case No. 10415 regarding filing monthly reports with the Commission and making its surcharge collection payments to Columbia Gas and DLG.

IT IS THEREFORE ORDERED that:

1. Johnson County shall file, within 14 days of the date of this Order, a response which includes, but is not limited to, a schedule showing all surcharges collected, including date, date surcharge deposited, including bank account number, and dates and payments to DLG and Columbia Gas. Johnson County shall also file, within 14 days of the date of this Order, a written response to show cause why the surcharge should not be extinguished

immediately as required by the settlement agreement attached to the Commission's Order of October 30, 1990.

2. Johnson County shall appear at a hearing scheduled for December 3, 1991 at 10:00 a.m., Eastern Standard Time, in Hearing Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky, and show cause, if it can, why it should not be penalized pursuant to KRS 278.990 for its failure to comply with an Order of the Commission entered October 30, 1990.

Done at Frankfort, Kentucky, this 8th day of November, 1991.

PUBLIC SERVICE COMMISSION



Robert M. Davis

ATTEST:



Lee M. Schachen
Executive Director

APPENDIX A

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE RATES OF
JOHNSON COUNTY GAS COMPANY, INC.

)
) CASE NO. 10415

O R D E R

On November 9, 1988, the Commission initiated an investigation of Johnson County Gas Company, Inc. ("Johnson County") to assess its financial condition and determine fair, just, and reasonable rates. Due to federal bankruptcy proceedings initiated in September 1984, Johnson County's rates have remained at the 1984 level without regard for current operating conditions and rendering its purchased gas adjustment clause inoperative. A Staff Report was prepared and issued on November 9, 1988 recommending that Johnson County decrease its rates by \$70,235 annually. Upon request by Johnson County and in the interest of setting rates based upon updated current information, a second Staff Report was prepared and issued on March 2, 1990 recommending Johnson County ~~decrease~~ its rates by \$7,018 annually.

After numerous informal conferences with the respective parties to this proceeding, Johnson County, its manager Estill Branham, and members of the Kentucky Business Trust, current owner of Johnson County, a settlement of all outstanding issues in this case was reached. That settlement was filed with the Commission on August 29, 1990. A copy of the Settlement Agreement is

attached hereto and marked Exhibit A. In summary, the agreement provides that Johnson County's rates shall remain at the level currently authorized in its tariff, except that the purchased gas adjustment clause currently found in its tariff shall be reimplemented within 10 days of Commission approval of the settlement to reflect wholesale gas costs in effect on February 1, 1990. All parties further have agreed that rates shall be redesigned to implement a surcharge specifically designated for the repayment of Johnson County's outstanding debts to the Department of Local Government and Columbia Gas of Kentucky, Inc., both members of the Kentucky Business Trust. All parties agree that Johnson County shall contain its total operating expenses and shall give priority in payment of its operating expenses to its wholesale gas suppliers. Johnson County also agrees not to seek a general rate increase ~~for~~ two years ~~from~~ the date of the Commission's Order approving the settlement except to recover costs arising from extraordinary causes beyond the control of Johnson County's owners or managers. Finally, the parties agree that all provisions of the settlement except the provisions relating to the surcharge and priority of operating expenses shall be void in the event of a transfer of ownership approved by this Commission.

After consideration of the record in this proceeding, the Settlement Agreement, the underlying financial analyses necessary to evaluate the agreement, and being otherwise sufficiently advised, the Commission finds the Settlement Agreement to be reasonable. The agreement is supported by the evidence of record,

is in accordance with the law, and does not violate any regulatory principle. Acceptance of the agreement is in the public interest and will benefit the ratepayers of Johnson County if the cost containment measures are implemented. Reimplementation of the purchased gas adjustment clause will ensure fair rates and adequate recovery of purchased gas cost. Finally, the rates allowed by the settlement are the current rates Johnson County is authorized by its tariff and by this Commission to charge and acceptance of the agreement will result in fair, just, and reasonable rates to Johnson County's customers.

IT IS THEREFORE ORDERED that:

1. The Settlement Agreement is hereby adopted and approved as settlement of all outstanding issues in this proceeding.
2. The Settlement Agreement is incorporated into this Order as if fully set forth herein.
3. The Settlement Agreement adopted herein will result in fair, just, and reasonable rates for the customers served by Johnson County.
4. Within 30 days of the date of this Order, Johnson County shall file its revised tariffs setting forth its currently authorized rates with the surcharge provision pursuant to the Appendix attached hereto and incorporated herein.
5. Johnson County shall adhere to and comply with all provisions of the Settlement Agreement.
6. Within 10 days of the date of this Order, Johnson County shall file a purchased gas adjustment as agreed in the settlement, in order to reflect its current cost of gas. The current cost

shall be measured against the base cost in effect on February 1, 1990.

Done at Frankfort, Kentucky, this 30th day of October, 1990.

By the Commission

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 10415 DATED 10/30/90

The following rates and charges are prescribed for the customers served by Johnson County Gas Company, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the date of this Order.

RATES:

Customer Charge	\$3.00
All MCF	
Base Rate	\$6.6474
Surcharge	<u>2.5159</u>
Total Rate Per MCF	\$9.1633

CONFIDENTIAL
PROPOSED SETTLEMENT

FILED

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

AUG 30 1990

PUBLIC SERVICE
COMMISSION

In the Matter of:

AN INVESTIGATION OF THE RATES OF
JOHNSON COUNTY GAS COMPANY, INC.

) CASE NO. 10415

SETTLEMENT AGREEMENT

WHEREAS, the Public Service Commission ("Commission") initiated this proceeding on November 9, 1988 for the purpose of determining whether Johnson County Gas Company, Inc.'s ("Johnson County") rates should be adjusted; and

WHEREAS, on March 2, 1990, the Commission Staff ("Staff") issued its report wherein it recommended a rate reduction of \$7,018; and

WHEREAS, the Kentucky Business Trust, comprised of representatives of the Department of Local Government ("DLG"), Columbia Gas of Kentucky, Inc. ("Columbia"), and the Governor's Office, collectively own the outstanding stock of Johnson County; and

WHEREAS, Johnson County, represented by its owners and manager, and Staff met on August 28, 1990 to discuss their respective proposed rate-making adjustments and the total revenue requirements of Johnson County; and

WHEREAS, Johnson County, its owners, and Staff have met and have reached agreement on all issues.

NOW, THEREFORE, be it resolved that:

1. The signatories agree that Johnson County's rates shall remain at the level currently authorized in its tariff, except as provided in Johnson County's Purchase Gas Adjustment Clause.

2. The signatories mutually agree that all outstanding revenue requirement issues in this proceeding have been resolved by this settlement.

3. The signatories agree that the purchase gas adjustment clause currently found in Johnson County's tariff shall be reimplemented effective within 10 days of Commission approval of this agreement, based upon wholesale gas costs in effect on February 1, 1990, as used in the March 2, 1990 Staff Report.

4. The signatories agree that rates shall be redesigned to implement a surcharge specifically designated for the repayment of Johnson County's debts to DLG and Columbia. Proceeds from surcharge collections shall be used for no reason other than repayment of debts to DLG and Columbia. The surcharge will be designed on an Mcf basis. Johnson County shall establish an escrow account with a financial institution into which it will separately account for repayment of its debts to DLG and Columbia. Amounts to be deposited into this account shall be equal to the combined repayment obligation of \$97,962 annually. This surcharge will immediately cease upon extinguishment of the entire debt or if any of the proceeds therefrom are used for any reason other than for repayment of the debts to DLG and to Columbia. This surcharge will not be added as a separate line item on Johnson County gas bills. This surcharge provision and the conditions thereto shall be added to

Johnson County's tariff within 10 days of the Commission approval of this agreement.

5. Johnson County agrees to contain total operating expenses at a level consistent with the recommendation of the March 2, 1990 Staff Report.

6. Johnson County agrees to give priority in payment of its operating expenses to its wholesale purchased gas suppliers.

7. Johnson County agrees that if revenues exceed the ordinary escrow amounts, purchased gas expenses, and the level of other operating expenses consistent with the requirement in Item 5, the excess revenues will go to the repayment of debts to DLG and Columbia.

8. This agreement is submitted for the purposes of this case only and is not deemed binding upon the signatories hereto in any other proceeding nor is it to be offered or relied upon in any other proceeding involving the signatories.

9. The signatories agree that Johnson County will not seek a general increase in rates for a period of 2 years on and after the date the Commission adopts this proposal. This rate moratorium shall not prevent Johnson County from seeking Commission approval in an expedited proceeding for recovery of costs arising from extraordinary causes that are beyond the control of Johnson County's owner and management which may include the proposed relocation of Highway 23 and other similar costs of this nature in excess of \$10,000.

10. For the purpose of monitoring Johnson County, Johnson County will file with the Commission, a copy of its monthly general ledger within 30 days from the end of each month.

11. It is understood by the signatories that this agreement is not binding upon the Commission.

12. If Commission does anything less than adopt the agreement in its entirety, Johnson County reserves the right to withdraw from the agreement and have this investigation proceed as if this agreement were never proposed.

13. If this agreement is not adopted by the Commission in its entirety, or if any signatory withdraws it, the investigation should go forward and the terms of this agreement shall not be binding upon the signatories, nor shall any matters raised during the settlement negotiations be binding on any signatory.

14. If the Commission adopts this proposal in its entirety, the signatories hereto agree that they shall not file an application for rehearing nor an appeal to the Franklin Circuit Court from such order.

15. The foregoing agreement is reasonable, in the best interest of all concerned, and will result in fair, just, and reasonable rates and should be adopted by the Commission in its entirety.

16. All provisions of this agreement, except for provision 4 and provision 6, shall become void in the event of transfer of ownership approved by the Commission.

